# HOUSING MARKET OUTLOOK

## Gatineau[1]

Canada Mortgage and Housing Corporation

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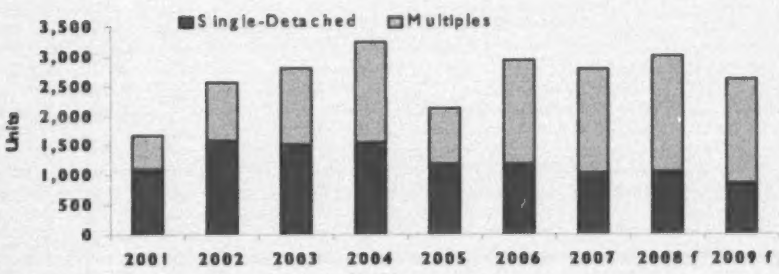
## Pace of residential construction to moderate in 2009 after peaking in 2008

This year will end with more housing starts than in 2007 in the Gatineau area. Already, for the first nine months of the year, the CMHC survey results show that starts are up 2 per cent compared to the same period in 2007. This upward trend is expected to continue in the fourth quarter and bring the annual starts total to 3,000 units, for an increase of almost 8 per cent over 2007.

Only in 2009 will construction begin to ease in the Gatineau area. In fact, there should be 400 fewer starts in 2009 than in 2008, which will bring the number of new units back down to 2,600. As Canada's economic growth will be weaker than anticipated this year, consumers will be more inclined to save. However, the area's economic structure, about 40 per cent of which is based on the

Figure 1

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[1] Quebec part of Ottawa-Gatineau CMA

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public sector, and the strong job creation observed since the beginning of the year will maintain housing starts at high levels in the Gatineau area. In fact, their volume will be above the average for the last ten years.

## Gatineau residents will be busy in 2009

A closer look at the Quebec part of the Ottawa-Gatineau census metropolitan area (CMA) reveals that the economic fundamentals remain strong for the moment. In the past year, almost 10,000 jobs were created in the area, two thirds of them full-time. This is good news for the real estate market, as it is mainly these jobs that fuel potential demand. Another benefit for the housing market is that the employment gains were registered mostly in the public service, a stable and well-paying sector, as well as in the professional and technical services and trade sectors. Slight decreases were observed, however, in the communications, transportation and construction sectors. Overall, the good performance of the labour market brought down the unemployment rate to slightly less than 5 per cent in the last few months and raised the employment rate to 70.3 per cent in September—the best result in the province.

The economic boom enjoyed by the National Capital Region will continue to stimulate real estate activity in 2009. Employment will grow, but at a slower pace, and will be driven in part by the implementation of the Quebec government's infrastructure plan, under which the Outaouais region will receive $200 million for roadwork from now until the end of 2009. The health and social services sector will also generate employment, thanks to a 4.5-per-cent budget increase. In the federal public service, the slowdown of the Canadian economy could make it difficult for the government to balance the budget and cause it to stop in the wave of hiring that began in the area a year ago. The impact of such a measure would be limited, though, as retirements will continue to increase in this sector, leaving the door open to more hiring.

Figure 2

Source : Statistics Canada
CMHC Forecasts

On the external economic front, Gatineau will manage to escape the international turmoil. Given its limited economic trade with foreign countries, the area will be fairly immune to the global ups and downs. In fact, the Outaouais region only has about 70 exporting companies whose products represent just 1 per cent of the overall value of Quebec's exports of goods. Even if the economic conditions south of the border are barely affecting the Gatineau regional economy, they will have effects on certain industrial sectors, including lumber and pulp and paper, which are currently going through a very difficult period. Finally, the recent weakening of the Canadian dollar will help certain exporting companies do relatively well.

## Net migration still positive in the area

Since 2001, the Gatineau region has recorded net positive migration. For the last five years, the annual average number of in-migrants has exceeded 11,000, while the annual average number of out-migrants has remained constant, at about 9,000. Net migration reached 2,203 people in 2007 and should remain close to 2,200 people in 2008 and 2009. Newcomers will come mainly from other regions of Quebec and from other countries. The Gatineau area will still attract people from other provinces, particularly Ontario, but will see as many individuals leave. The wave of Ontarians crossing the Ottawa River that was observed at the beginning of the decade has lost some momentum since 2006. Finally, good employment prospects in the

area, compared to other Quebec regions, will keep attracting people to Gatineau in 2009. However, Quebecers settling in the National Capital Region are increasingly opting for the Ontario side of the CMA. In 2007, more than half of them chose the west bank of the Ottawa River. This trend is pushing down net migration, which would be otherwise higher in the Gatineau area.

Positive net migration, combined with natural population growth, will add about 3,500 people to the Gatineau area population in 2009. Favourable labour market conditions and a new government policy to progressively increase the international immigration target for Quebec to 55,000 people by 2010 (from the current level of 49,000 people) will help keep net migration positive. Numerous advantages granted to parents of preschool-age children, such as parental leaves, child benefits and the new subsidized child care spaces that will be created over the next four years, will quicken the pace of family formation—families with their own housing needs.

## Single-detached houses losing ground to multiple-family housing

The impact of the price increases in the last few years and the moderate growth of the Canadian economy will be greater for single-detached housing construction, especially in the upper-range segment. Buyers will be pickier; they will be looking for more affordable homes, such as semi-detached or row houses, or for existing properties. Tighter credit conditions will also reinforce this trend, with Canadian financial institutions now demonstrating more caution before granting credit to lenders. While multiple-family (semi-detached, row and condominium) housing starts will increase by 8 per cent this year, single-detached home starts will only rise by 1 per cent. Despite the expected decline, multiple housing starts will see their market share increase, from 46 per cent five years ago to over 67 per cent in 2009. The faster rise in the average price of single-detached houses caused demand to shift toward more affordable housing types. In 2007, the gap, at the time of absorption, between the average prices of single-detached and semi-detached houses was over $91,000, compared to $60,000 four years earlier. For first-time buyers, the type of housing that they must choose is more obvious.

As a result of this price gap, multiple housing will stay popular. Semi-detached and row home building will remain stable next year, while apartment construction should moderate slightly. It is anticipated that the volume of new condominiums will remain significant in 2009, despite a decrease in the rental housing segment. In fact, over the past few years, the supply of rental housing for seniors has increased more rapidly than the population aged 75 years or older. The vacancy rate for this type of housing is on the rise, making waiting lists a thing of the past. The anticipated completion of over 400 retirement housing units in 2009 will strengthen this trend and could lead to a temporary reduction in starts. As well, units are managing to be absorbed within less than eight months after completion.

The strong demand for affordable homes will keep the semi-detached housing price curve above inflation. The price of single-detached houses will climb again in 2009, but at a rate similar to the Consumer Price Index (CPI).

Since 2007, Aylmer has been the sector with the highest volume of starts, and the same will hold true in 2009. In 2001, Aylmer ranked last in terms of housing starts among the three large sectors of the municipality of Gatineau but has since been steadily gaining in popularity. Improvements made to the road network and the redevelopment of many lots along the new major thoroughfare (Des Allumettières Boulevard) are attracting buyers.

## Resale market to remain active in 2009 despite a slight decline

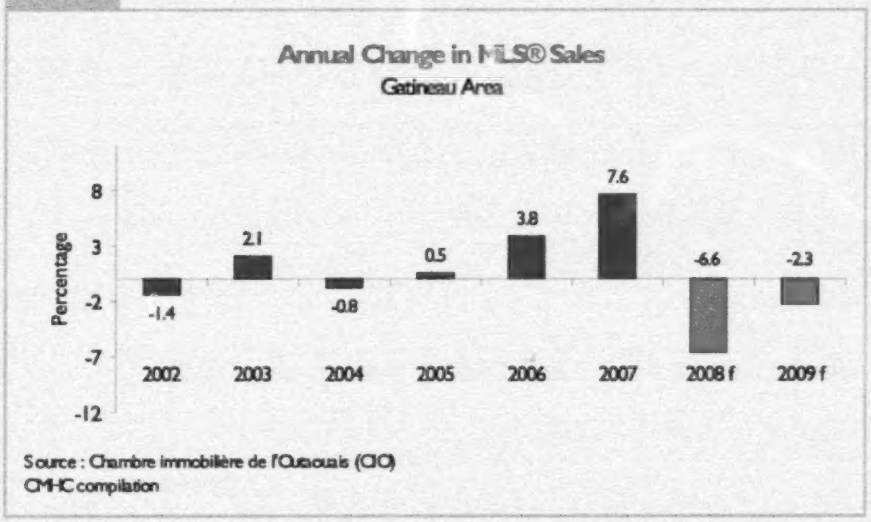
After posting several years of growth, resale market activity will decline in 2008 and 2009. There should be 300 fewer sales this year than in 2007. In 2009, the number of homes that will be changing hands will fall to 4,200, for a decrease of 100 transactions from 2008. Even with the healthy job market in the region, sales will fall this year as a result of a decrease in supply. In 2009, the market will be facing a less significant demand. Buyers will be less numerous and more cautious, such that demand for existing homes will decrease.

As is the case on the new home market, upscale single-detached houses will also be harder to sell on the resale market. In fact, the steady rise in prices led to an increase in the number of properties selling for over $200,000. The slight decline in demand forecast for 2009 will increasingly favour buyers, as the market is already balanced. The seller-to-buyer ratio currently stands at 8 to 1. Yet, sales in the Aylmer sector will remain numerous, even though the prices there are higher than the average for the overall Gatineau area. Many buyers are attracted by the assets of this sector: better access to downtown Ottawa, thanks to the main road, and a favourable price gap with properties on the Ontario side. The market will therefore remain favourable to sellers (with the seller-to-buyer ratio currently at 6 to 1) but will be tending toward balanced conditions in 2009.

As buyers are seeking more affordable properties, demand for semi-detached and row houses will remain high. Furthermore, the scarce supply and increasingly shorter listing periods will continue to favour sellers in 2009, which will cause prices to climb more rapidly for these multi-family housing types than for the other housing categories.

Overall, the average price on the existing home market will climb by 5.5 per cent in 2008 and then increase at a pace closer to the rate of inflation in 2009 (+3 per cent).

Figure 3




Source : Chambre immobilière de l'Outaouais (CIO)
CMHC compilation

The market, which was favouring sellers in 2008, will move toward more balanced conditions in 2009, which will limit the growth in prices.

## Vacancy rate to fall in 2009

The rental housing vacancy rate should rise slightly this year, before coming back down next year; the rate will reach 3.4 per cent this year and 3.0 per cent in 2009. Labour market conditions will lead to a strong demand for semi-detached and row houses, which are more affordable than single-detached homes, such that more rental units will be vacated in 2008. In addition, the strong employment growth for young people aged from 15 to 24 years registered in the past year—with more than 6,500 jobs, close to one quarter of them full-time—and the constant migration to the region should cause the vacancy rate to fall in 2009.

It is a totally different story in the retirement home segment. While the number of available units has not stopped increasing for the last few years, with over 6 per cent of the units vacant at the time of the last CMHC survey, new retirement homes are still arriving on the market in the area. The supply of retirement housing is growing at a greater rate than the population aged 75 years or older, bringing the penetration rate of the supply (ratio of units to population aged 75 years or older) to ever higher levels. In fact, this rate could be greater than 20 per cent in 2008 and 2009, compared to only 10 per cent in 2004. It is therefore expected that the pace of starts of this type will moderate in 2009.

## Mortgage Rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

Figure 4

Source : Chambre immobilière de l'Outaouais (CIO)
CMHC compilation

| Forecast Summary<br>Gatineau CMA<br>Fall 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008f | % chg | 2009f | % chg |
| **Resale Market** | | | | | | | |
| MLS® Sales | 4,122 | 4,280 | 4,606 | 4,300 | -6.6 | 4,200 | -2.3 |
| MLS® Active Listings | 2,167 | 2,282 | 2,261 | 2,200 | -2.7 | 2,300 | 4.5 |
| MLS® Average Price ($) | 165,563 | 174,317 | 185,693 | 195,900 | 5.5 | 201,800 | 3.0 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 1,192 | 1,171 | 1,037 | 1,050 | 1.3 | 850 | -19.0 |
| Multiples | 931 | 1,762 | 1,751 | 1,950 | 11.4 | 1,750 | -10.3 |
| Starts - Total | 2,123 | 2,933 | 2,788 | 3,000 | 7.6 | 2,600 | -13.3 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 208,262 | 212,375 | 231,136 | 242,000 | 4.7 | 245,000 | 1.2 |
| Semi-Detached | 138,058 | 141,056 | 139,774 | 157,000 | 12.3 | 163,000 | 3.8 |
| **Median Price ($):** | | | | | | | |
| Single-Detached | 197,000 | 200,000 | 220,000 | 231,000 | 5.0 | 233,000 | 0.9 |
| New Housing Price Index (% chg.) (Ottawa-Gatineau) | 4.6 | 3.1 | 1.8 | 1.7 | - | 1.7 | - |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 3.1 | 4.2 | 2.9 | 3.4 | 0.5 | 3.0 | -0.4 |
| Two-bedroom Average Rent (October) ($) | 660 | 667 | 662 | 670 | - | 680 | - |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 5.06 | 6.28 | 6.90 | 6.75 | -0.15 | 6.31 | -0.44 |
| Mortgage Rate (5 year) (%) | 5.99 | 6.66 | 7.07 | 7.05 | -0.02 | 6.92 | -0.13 |
| Annual Employment Level | 154,200 | 160,200 | 163,300 | 170,000 | s.o. | 172,500 | s.o. |
| Employment Growth (%) | 4.5 | 3.9 | 1.9 | 4.1 | s.o. | 1.5 | s.o. |
| Unemployment rate (%) | 6.7 | 5.6 | 5.5 | 5.0 | - | 5.2 | - |
| Net Migration | 1,648 | 1,648 | 2,203 | 2,200 | -0.1 | 2,200 | 0.0 |

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Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Chambre immobilière de l'Outaouais (MLS®), Statistics Canada (CANSIM)

**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

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